

Message Text

LIMITED OFFICIAL USE

PAGE 01 LIMA 09378 01 OF 02 071446Z

43

ACTION ARA-10

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-03 H-01 INR-05 L-02

NSAE-00 NSC-05 PA-01 RSC-01 PRS-01 SP-02 SS-15

USIA-06 EB-04 AID-05 /062 W

----- 022367

R 071315Z NOV 74

FM AMEMBASSY LIMA

TO SECSTATE WASHDC 2623

LIMITED OFFICIAL USE SECTION 1 OF 2 LIMA 9378

EO 11652: N/A

TAGS: EGEN, PE

SUBJECT: FINANCE MINISTER DISCUSSES PERUVIAN ECONOMY

1. SUMMARY: IN A NATIONALLY TELEVISED SPEECH OCTOBER 31, MINISTER OF ECONOMY AND FINANCE, GENERALAMILCAR VARGAS GAVILANO PORTRAYED THE PERUVIAN ECONOMY AS SOUND DESPITE SERIOUS BUFFETING FROM EXTERNAL INFLATION. THE SPEECH CONTAINED NO SURPRISES AND WAS DESIGNED IN CONTENT AND STYLE TO CONVEY AN IMPRESSION OF PROFESSIONAL COMPETENCE ON THE PART OF THE NEW TEAM AT THE MINISTRY AND TO ALLAY CONCERN ABOUT THE ABILITY OF PERU, AND ITS ECONOMIC MANAGERS, TO CONTROL ECONOMIC DEVELOPMENTS. SOME UNCERTAINTY REMAINS, HOWEVER, SINCE THE SPEECH DEALT ALMOST EXCLUSIVELY, ELBEIT SUPERFICILIALLY, WITH THE SUCCESSES OF 1974 AND FAILED TO ACCORD ADEQUATE RECOGNITION TO THE DIFFICULTIES FACING THE ECONOMY. THE MINISTER PROMISED TO MEET FREQUENTLY WITH THE PRESS TO KEEP IT INFORMED OF SPECIFIC ECONOMIC PROBLEMS AND DEVELOPMENTS. THE SPEECH CONTAINED THE USUAL EXHORTAION FOR POPULAR SUPPORT OF THE REVOLUTION. SURPRISINGLY, THERE WAS NO MENTION OF THE EPSA SCANDAL (LIMA 8955) NOR OF THE SHORTAGES OF BASIC FOOD ITEMS WHICH REPORTEDLY HAVE BEEN OCCURRING PARTIALLY DUE TO EPSA MISMANAGEMENT. END SUMMARY.

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 LIMA 09378 01 OF 02 071446Z

2. FOLLOWING ARE THE PRINCIPAL ECONOMIC STATISTICS PRE-

SENTED IN THE SPEECH TOGETHER WITH THE EMBASSY'S COMMENT
ON SELECTED IMES (ALL FIGURES ARE FOR CY74 UNLESS OTHER
WISE INDICATED):

A. GROWTH - REAL GROWTH IN GNP WILL REACH 6.3 PERCENT
FOR 1974, LED BY THE FISHING SECTOR '52 PERCENT), CONSTRUC-
TION (20 PERCENT) AND MANUFACTURING (8 PERCENT). THE
AGRICULTURAL SECTOR WILL SHOW ONLY SLIGHT GROWTH (1.2 PER-
CENT).

B. DEMAND - PRIVATE CONSUMPTION SPENDING WILL INCREASE
BY 10 PERCENT, PUBLIC CONSUMPTION BY 1 PERCENT, PUBLIC IN-
VESTMENT BY 37 PERCENT, PRIVATE INVESTMENT BY 17 PERCENT,
AND TOTAL INVESTMENT BY 25 PERCENT. COMMENT: THE PUBLIC
CONSUMPTION FIGURE IS CONSIDERABLY UNDERESTIMATED SINCE
GOP EMPLOYMENT AND SALARIES HAVE INCREASED SIGNIFICANTLY.
THIS DISCREPANCY WAS DEMONSTRATED WITHIN THE BODY OF THE
MINISTER'S SPEECH IN A SEPARATE TABLE WHICH SHOWS CURRENT
EXPENDITURES OF THE GOP UP 44 PERCENT IN THE PRESENT BIENNIAL
BUDGET PERIOD.

C. EMPLOYMENT - UNEMPLOYMENT IN THE LIMA/CALLAO
AREA WILL FALL FROM 7.7 PERCENT TO 6.5 PERCENT BY THE
END OF 1974. COMMNET: ALTHOUGH IT IS POSSIBLE THAT EMPLOYMENT INCREASE
S EXCEEDED NEW ADDITIONS TO THE LABOR
FORCE DURING THE PAST YEAR, UNDEREMPLOYMENT (WHICH WAS
NOT MENTIONED BY THE MINISTER) AND UNEMPLOYMENT REMAIN
SERIOUS SOCIAL PROBLEMS FOR THE GOP, WITH A COMBINED RATE
IN EXCESS OF 30 PERCENT.

D. PRICES - GOP SUBSIDIES AND PRICE CONTROLS HAVE
HELD PRICES TO AN INCREASE OF ONLY 14 PERCENT OVER THE
FIRST NINE MONTHS OF 1974 DESPITE SEVERE EXTERNAL PRES-
SURES. COMMENT: ON AN ANNUAL BASIS THE INFLATION RATE WOULD THUS BE
19 PERCENT, PROBABLY UNDERSTATING THE ACTUAL ANNUAL RATE BY
FIVE PERCENTAGE POINTS.

E. CENTRAL GOVERNMENT BUDGET - BOTH EXPENDITURES AND
RECEIPTS WILL INCREASE BY 51 PERCENT, WITH THE RESULTING
DEFICIT EQUAL TO 1.9 PERCENT OF TOTAL RECEIPTS. TAXES WILL
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 LIMA 09378 01 OF 02 071446Z

INCREASE BY 39 PERCENT. COMMENT: THE MINISTER DEFINED
THE BUDGET DEFICIT AS TOTAL EXPENDITURES MINUS TOTAL RE-
CEIPTS, DISINGENUOUSLY NEGLECTING TO MENTION THAT 31 PER-
CENT OF TOTAL RECEIPTS ARE BORROWINGS TO FINANCE THE EX-
PENDITURES, INCLUDING FOREIGN LOANS.

F. BALANCE OF PAYMENTS - EXPORTS WILL INCREASE BY
36 PERCENT, IMPORTS BY 95 PERCENT, RESULTING IN A TRADE

DEFICIT OF \$449 MILLION. GROSS LONG-TERM CAPITAL INFLOW WILL BE \$881 MILLION (NET \$430 MILLION). OVERALL BALANCE OF PAYMENTS WILL SHOW A SURPLUS OF \$13 MILLION. COMMENT: THE NET BASIC BALANCE (TRADE AND SERVICES DEFICIT MINUS NET LONG TERM CAPITAL INFLOW) SHOWS A DEFICIT OF \$446 MILLION, A FACT CONTAINED IN THE STATISTICAL TABLES BUT NOT MENTIONED BY THE MINISTER. THIS DEFICIT WILL BE COVERED BY SHORT-TERM CREDIT INFLOWS (WHICH, IN THE EMBASSY'S VIEW, MAY BE INTERPRETED AS A POTENTIAL SERIOUS WEAKNESS IN THE PERUVIAN ECONOMY) AND ERRORS AND OMISSIONS.

G. FOREIGN DEBT - AS OF SEPTEMBER 30, OUTSTANDING DEBT \$1,910 MILLION. DEBT INCREASED BY 667 PERCENT DURING 1960-1968 BUT ONLY 159 PERCENT DURING 1968 TO PRESENT. DEBT SERVICE TO EXPORT RATIO AFTER REFINANCING IS 13.2 PERCENT.

H. RESERVES - NET INTERNATIONAL RESERVES WERE \$539 MILLION AS OF OCTOBER 21. COMMENT: THIS FIGURE, WHICH PRESUMABLY REPRESENTS GROSS RESERVES MINUS SHORT-TERM LIABILITIES SEEMS EXAGGERATED AND IF ACCURATE, IMPLIES AN INCREASED LONG-TERM DEBT.

LIMITED OFFICIAL USE

NNN

LIMITED OFFICIAL USE

PAGE 01 LIMA 09378 02 OF 02 071448Z

43
ACTION ARA-10

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-03 H-01 INR-05 L-02

NSAE-00 NSC-05 PA-01 RSC-01 PRS-01 SP-02 SS-15

USIA-06 EB-04 AID-05 /062 W
----- 022377
R 071315Z NOV 74
FM AMEMBASSY LIMA
TO SECSTATE WASHDC 2624

LIMITED OFFICIAL USE SECTION 2 OF 2 LIMA 9378

4. COMMENT: VARGAS' SPEECH BORE A STRIKING RESEMBLANCE TO THOSE OF FORMER FINANCE MINISTER GENERAL MORALES BERMUDEZ WHEN HE OCCUPIED THAT POST, ALTHOUGH IT WAS LESS CANDID IN FACING UP TO PRESSING PROBLEMS. DATA SEEMED TO BE PRESENTED TO OBFUSCATE RATHER THAN CLARIFY ISSUES. VARGAS TOOK PAINS

TO CAUTION AGAINST MISINTERPRETATION OF THE DATA, AN OBVIOUS REFERENCE TO RECENT PUBLISHED STATEMENTS IN THE OPPOSITION PRESS QUESTIONING THE SIZE OF THE EXTERNAL PUBLIC DEBT. NOTWITHSTANDING THE ADVANCE PUBLICITY GENERATED ABOUT THE SPEECH, IT CONTAINED NO INDICATION OF ANY NEW POLICY MEASURES, AND THE MINISTER WENT OUT OF HIS WAY TO DEFEND THE GOVERNMENT'S PRICE SUBSIDIES POLICY. WHILE AGREEING WITH THE GENERAL TONE AND THRUST OF THE SPEECH, WE BELIEVE IT WAS A LESS THAN CANDID ASSESSMENT OF THE COST TO THE GOP OF ITS SUBSIDIES PROGRAM. IT ALSO AVOIDED AN EXPLANATION OF HOW GOP MAY BE REQUIRED TO RELY HEAVILY ON SHORT-TERM FINANCING OF ITS BALANCE OF PAYMENTS IT AS EXPECTED PERU CONTINUES TO RUN LARGE MERCHANDIZE TRADE DEFICITS. IN SUM, WHILE VARGAS ATTEMPTED TO PAINT A GENERALLY POSITIVE PICTURE, THE ISSUES HE OBFUSCATED OR IGNORED WILL CONTINUE TO PLAGUE PERU IN THE FUTURE AND COULD WELL POSE SOME HARD CHOICES FOR THE MINISTER AND THE GIP IN THE NEAR TERM.

DEAN

LIMITED OFFICIAL USE

NNN

Message Attributes

Automatic Decaptoning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC CONDITIONS, SPEECHES
Control Number: n/a
Copy: SINGLE
Draft Date: 07 NOV 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: GarlanWA
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974LIMA09378
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D740320-0562
From: LIMA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19741163/aaaacbqm.tel
Line Count: 187
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION ARA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: GarlanWA
Review Comment: n/a
Review Content Flags:
Review Date: 20 SEP 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <20 SEP 2002 by WorrelSW>; APPROVED <24 MAR 2003 by GarlanWA>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: FINANCE MINISTER DISCUSSES PERUVIAN ECONOMY
TAGS: EGEN, PE, (VARGAS GAVILANO, AMILCAR)
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005